

The Sydney Morning Herald

No. 6163.—VOL. XXXIX.]

MONDAY, MARCH 8, 1858.

[PRICE FOURPENCE.]

BIRTHS.
On Monday, the 1st of March, at No. 35, Palmer-street, Mrs. George Ed. a daughter.
On the 5th instant, at Woolloomooloo, Mrs. Elizabeth, of a son.
On the 5th instant, at her residence, Palmer-street, Woolloomooloo, Mrs. John Davidson, of a son.

MARRIAGES.
On the 1st of March, by special licence, at 121, Elizabeth-street, Sydney, by the Rev. Dr. McHenry, William Horning, of Sydney, to Margaret, eldest daughter of Mr. George Cameron, of Sydney.
On the 2nd of March, at Ringwood, by the Rev. Robert Blair, of Hinton, Hants, to Miss Mary, of Ringwood, daughter of the late Major William Russell, of H. M. 20th Regiment, of Ringwood, Hants.

On the 2nd of March, at the Oaks Chapel, by the Rev. Edward Rogers, Mr. William Inglis, of Chesham, to Miss Elizabeth, daughter of Mr. Donald Macdonald, of Sydney.
On the 5th instant, by special licence, at St. James's Church, by the Rev. George Gurney, H. M. 20th Regiment, of Sydney, to Miss Mary, of Sydney, daughter of the late Major William Russell, of H. M. 20th Regiment, of Ringwood, Hants.

DEATHS.
On Friday, the 13th of February, at her residence, Sharnbrook Inn, Wellington Road, Anne, the beloved wife of Mr. J. Jones, in the 58th year of age.
On the 4th March, at her residence, Orange, Mrs. William Tucker, in the 4th instant, at her father's residence, Ellen, only daughter of Mr. William Henry Tucker, Sussex-street, aged 15 months.

On the 17th instant, at his residence, Bulmer-street, Sydney, Mr. David Ball, aged 70 years.
On the 17th instant, at his residence, 10, Collins-street, Sydney, Mr. David Ball, aged 70 years.

SHIP ADVERTISEMENTS.
EUROPEAN AND AUSTRALIAN ROYAL MAIL COMPANY.—Limited.
REDUCTION OF FARES. OVERLAND ROUTE.
The Royal Mail Steamship "EMERALD," Captain James W. Smith, will sail for London, via the Cape of Good Hope, on THURSDAY, 11th of MARCH, at 10 o'clock a.m.

Rate of passage money, including transit through Egypt, medical attendance, use of bedding and linen, stewards' and other services, except for 1st class passengers, 20 guineas; 2nd class, 15 guineas; 3rd class, 10 guineas; 4th class, 5 guineas; 5th class, 3 guineas; 6th class, 2 guineas; 7th class, 1 guinea; 8th class, 5 shillings; 9th class, 2 shillings; 10th class, 1 shilling; 11th class, 6 pence; 12th class, 3 pence; 13th class, 1 penny; 14th class, 1/2 penny; 15th class, 1/4 penny; 16th class, 1/8 penny; 17th class, 1/16 penny; 18th class, 1/32 penny; 19th class, 1/64 penny; 20th class, 1/128 penny; 21st class, 1/256 penny; 22nd class, 1/512 penny; 23rd class, 1/1024 penny; 24th class, 1/2048 penny; 25th class, 1/4096 penny; 26th class, 1/8192 penny; 27th class, 1/16384 penny; 28th class, 1/32768 penny; 29th class, 1/65536 penny; 30th class, 1/131072 penny; 31st class, 1/262144 penny; 32nd class, 1/524288 penny; 33rd class, 1/1048576 penny; 34th class, 1/2097152 penny; 35th class, 1/4194304 penny; 36th class, 1/8388608 penny; 37th class, 1/16777216 penny; 38th class, 1/33554432 penny; 39th class, 1/67108864 penny; 40th class, 1/134217728 penny; 41st class, 1/268435456 penny; 42nd class, 1/536870912 penny; 43rd class, 1/1073741824 penny; 44th class, 1/2147483648 penny; 45th class, 1/4294967296 penny; 46th class, 1/8589934592 penny; 47th class, 1/17179869184 penny; 48th class, 1/34359738368 penny; 49th class, 1/68719476736 penny; 50th class, 1/137438953472 penny; 51st class, 1/274877906944 penny; 52nd class, 1/549755813888 penny; 53rd class, 1/1099511627776 penny; 54th class, 1/2199023255552 penny; 55th class, 1/4398046511104 penny; 56th class, 1/8796093022208 penny; 57th class, 1/17592186044416 penny; 58th class, 1/35184372088832 penny; 59th class, 1/70368744177664 penny; 60th class, 1/140737488355328 penny; 61st class, 1/281474976710656 penny; 62nd class, 1/562949953421312 penny; 63rd class, 1/1125899906842624 penny; 64th class, 1/2251799813685248 penny; 65th class, 1/4503599627370496 penny; 66th class, 1/9007199254740992 penny; 67th class, 1/18014398509481984 penny; 68th class, 1/36028797018963968 penny; 69th class, 1/72057594037927936 penny; 70th class, 1/144115188075855872 penny; 71st class, 1/288230376151711744 penny; 72nd class, 1/576460752303423488 penny; 73rd class, 1/1152921504606846976 penny; 74th class, 1/2305843009213693952 penny; 75th class, 1/4611686018427387904 penny; 76th class, 1/9223372036854775808 penny; 77th class, 1/18446744073709551616 penny; 78th class, 1/36893488147419103232 penny; 79th class, 1/73786976294838206464 penny; 80th class, 1/147573952589676412928 penny; 81st class, 1/295147905179352825856 penny; 82nd class, 1/590295810358705651712 penny; 83rd class, 1/1180591620717411303424 penny; 84th class, 1/2361183241434822606848 penny; 85th class, 1/4722366482869645213696 penny; 86th class, 1/9444732965739290427392 penny; 87th class, 1/18889465931478580854784 penny; 88th class, 1/37778931862957161709568 penny; 89th class, 1/75557863725914323419136 penny; 90th class, 1/151115727451828646838272 penny; 91st class, 1/302231454903657293676544 penny; 92nd class, 1/604462909807314587353088 penny; 93rd class, 1/1208925819614629174706176 penny; 94th class, 1/2417851639229258349412352 penny; 95th class, 1/4835703278458516698824704 penny; 96th class, 1/9671406556917033397649408 penny; 97th class, 1/19342813113834066795298816 penny; 98th class, 1/38685626227668133590597632 penny; 99th class, 1/77371252455336267181195264 penny; 100th class, 1/154742504910672534362390528 penny; 101st class, 1/309485009821345068724781056 penny; 102nd class, 1/618970019642690137449562112 penny; 103rd class, 1/1237940039285380274899124224 penny; 104th class, 1/2475880078570760549798248448 penny; 105th class, 1/4951760157141521099596496896 penny; 106th class, 1/9903520314283042199192993792 penny; 107th class, 1/19807040628566084398385987584 penny; 108th class, 1/39614081257132168796771975168 penny; 109th class, 1/79228162514264337593543950336 penny; 110th class, 1/158456325028528675187087900672 penny; 111th class, 1/316912650057057350374175801344 penny; 112th class, 1/633825300114114700748351602688 penny; 113th class, 1/1267650600228229401496703205376 penny; 114th class, 1/2535301200456458802993406410752 penny; 115th class, 1/5070602400912917605986812821504 penny; 116th class, 1/10141204801825835211973625643008 penny; 117th class, 1/20282409603651670423947251286016 penny; 118th class, 1/40564819207303340847894502572032 penny; 119th class, 1/81129638414606681695789005144064 penny; 120th class, 1/162259276829213363391578010288128 penny; 121st class, 1/324518553658426726783156020576256 penny; 122nd class, 1/649037107316853453566312041152512 penny; 123rd class, 1/1298074214633706907132624082305024 penny; 124th class, 1/2596148429267413814265248164610048 penny; 125th class, 1/5192296858534827628530496329220096 penny; 126th class, 1/10384593717069655257060992658440192 penny; 127th class, 1/20769187434139310514121985316880384 penny; 128th class, 1/41538374868278621028243970633760768 penny; 129th class, 1/83076749736557242056487941267521536 penny; 130th class, 1/166153499473114484112975882535043072 penny; 131st class, 1/332306998946228968225951765070086144 penny; 132nd class, 1/664613997892457936451903530140172288 penny; 133rd class, 1/13292279957849158729038070602803456 penny; 134th class, 1/26584559915698317458076141205606912 penny; 135th class, 1/53169119831396634916152282411213824 penny; 136th class, 1/106338239662793269832304564822427648 penny; 137th class, 1/212676479325586539664609129644855296 penny; 138th class, 1/425352958651173079329218259289710592 penny; 139th class, 1/850705917302346158658436518579421184 penny; 140th class, 1/1701411834604692317316873037158842368 penny; 141st class, 1/3402823669209384634633746074317684736 penny; 142nd class, 1/6805647338418769269267492148635369472 penny; 143rd class, 1/13611294676837538538534984297270738944 penny; 144th class, 1/27222589353675077077069968594541477888 penny; 145th class, 1/54445178707350154154139937189082955776 penny; 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234th class, 1/336999333379427797733376021072817985638009882971370544324608 penny; 235th class, 1/67399866675885559546675204214563597127601976594274108849216 penny; 236th class, 1/134799733351771119093350408429127194255203953188548217698432 penny; 237th class, 1/269599466703542238186700816858254385010407906377096435376864 penny; 238th class, 1/539198933407084476373401633716508770020815812754192870753728 penny; 239th class, 1/1078397866814168952746803267433017400041636225508385741507456 penny; 240th class, 1/215679573362833790549360653486603480008327245101677148314912 penny; 241st class, 1/431359146725667581098721306973206960016654490203354296629824 penny; 242nd class, 1/862718293451335162197442613946413920033308980406708593259648 penny; 243rd class, 1/1725436586902670324394885227892827840066617960813417185519296 penny; 244th class, 1/3450873173805340648789770455785655680133235921626834371137592 penny; 245th class, 1/6901746347610681297579540911571311360266471843253668742275184 penny; 246th class, 1/13803492695221362595159081823142622720532943686507337484550368 penny; 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(Agricultural and Horticultural Society was held

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ON THE INSUFFICIENCY OF THE BANK RESERVE.

"A BANKER," on 26th November, addressed the following observations on this topic, to the editor of the *Economist*, in the form of a letter. After making a few preliminary remarks, the writer proceeds:—

For the last three weeks the minds of thinking and experienced men have been anxiously applied to the working of the Act of 1844, and the knowledge of it has made great progress. Hardly any one doubts now that Sir Robert Peel's legislation, whatever real or supposed advantages it may have, has the disadvantage of seriously aggravating a time of panic; and that, as I ventured to observe to you formerly, the store of bullion which in practice it induces the Bank to keep, is bullion in a straight waistcoat—dressed up and inapplicable to the instant wants of a real pressure. The prestige of perfection belonging to the Act is gone, and the notion is that it is "unworkable" at a period of pressure.

I am not desirous at this moment of theorizing. The practical point is a serious and anxious one as the last few weeks have taught all thinking men. I wish, therefore, to be allowed to write to you on a part of the subject which does not yet take a sufficiently prominent place in the discussion, and is rather likely to be thrust aside when Parliament meets, by criticisms and panegyrics on the act of the Government. I wish to inquire whether the Bank have or have not kept of late a sufficient banking reserve for the wants of the country.

There are at first sight one or two considerations which might seem to make it likely that the Bank of England need not keep so large a proportion of its liabilities in actual wealth as other bankers. The largest account—the Government—has the largest bank account, and the Bank has ever possessed—one of the steadiest and most calculable kind. Its probable variations are matters of newspaper notoriety, and there is not a dream of its being withdrawn from panic or apprehension. Many of the "other deposits" also are of a remarkably steady kind; and, what is even more important, the panic feeling which drives men from other bankers, drives them to the Bank of England as the last refuge. At the present moment the deposits of the Bank of England are swelled by money withdrawn from bill brokers and bankers, not commonly, perhaps, from defined distrust, but from a wish to be sure of having some money, happen what may. Both these circumstances would seem to indicate that the Bank need keep only a smaller reserve than other bankers.

There are, however, two other peculiarities of the Bank of England which far outweigh these—at least in my judgment—on a more exact scrutiny. In the first place it keeps the bullion reserve of the country. I am not, you will observe, now speaking of the currency—that is a separate matter, with which I am anxious not to complicate the discussion. I speak of the Bank of England as a bank merely; in the language of Sir R. Peel's Act, of the Banking Department. The certain fact is that, according to the existing practice, no private banker keeps more actual coin than he wants for daily necessary occasions. In London, the Bank of England is the bankers' bank. Especially since the admission lately of the great joint-stock banks to the clearing-house, no London banker keeps his till more coin, or even more Bank notes, than the minimum he can get on with. If there is any unusual demand on him for payments across the counter, he draws a cheque and gets it cashed at the Bank. The Bank of England is to him what he is to his customer—the source of supply in case of need. Country bankers probably for the most part keep more cash, because they are further from the focus. As they have further to send when they want fresh supplies, their supply of current cash must be larger. This does not, however, affect the principle. Country bankers, I apprehend, as well as London bankers, only keep the minimum in their tills which their ordinary business plainly requires; the rest of their reserve is kept at the bill brokers, or with London bankers, who all keep accounts at the Bank of England, and who, as I have said, keep nothing anywhere else except the narrowest and most necessary minimum. The consequence is, that there is no other large pecuniary hoard in the country on which a drain of bullion can act, except that which is in the vaults of the Bank. There used to be an idea that an adverse exchange could be corrected by diminishing the active circulation—in plainer words, by collecting from savagery from fairs and markets, or by collecting Bank of England notes from the counting-houses of merchants and cashing them at the Issue Department of the Bank of England. The experience of recent years has quite disproved this, however. The active circulation of Bank notes is singularly steady, and there is good reason to think that no bullion merchants goes to the trouble of collecting sovereigns from petty tills through the country. An adverse exchange acts on the banking reserve of the Bank of England. No one could put this in a stronger light than the authorised exponents of the Bank business before the recent committee. "When the money of the country," says Mr. Woguelin, "exceeds in value for a certain period the exports of the country, a balance is created against the country, which, provided there are no failures or discredit at the time, must be paid in bullion. That bullion is drawn from the Bank reserve." [Report and Evidence on Bank Act, p. 26.] And if this is so, it is plain that the Bank ought to keep a reserve of singular magnitude. The balance of trade in a country like England, with enormous transactions, giving large credits, exporting manufactures of singular variety, importing raw materials in unprecedented quantity, is acted on by circumstances so various, so potent, so impossible to predict, that an enormous store must be kept in immediate readiness to meet its demands.

The importance of this is, perhaps, more evident if we translate the same argument into other language. A system of ramified credit exists in this country to which the world has no parallel. All through the country large money-dealers promise to pay unheeded amounts on demand. All these dealers keep their sole fund for meeting all but the most current of these payments at a single treasury. That treasury is liable to be drained of enormous sums by bad harvests, foreign wars, Oriental exports—in a word, by all the accidents that can occur to a commerce on which the sun never sets, and to a range of politics that is almost equally far-reaching. Can there be a question of the enormous importance of keeping this single treasury thoroughly supplied?

There is another circumstance which is, perhaps, even more important. The Bank of England professes to be in some sense an unlimited lending establishment. Mr. G. W. Norman, who has been thirty-six years a bank director, whose name is so well known to all subjects, gives this account of its practice:—

"3228. The advances of the Bank of England are made through what is called the Discount-office:—The greatest part of them."

3228. What is the nature of the Discount-office?—It is a very anomalous institution, because the Bank is supposed to hold out an offer to everybody to lend money to any amount on bills of exchange, at a rate of interest fixed by itself, and subject first of all to variations in the rate of interest, and then to certain other contingencies, such as a diminution in the value of the bills, and an occasional rejection of securities ordinarily admitted."

3229. Is it not principally by raising the rate of interest that you check the amount of discounts which may be demanded of you?—Yes, we have found, contrary to what would have been anticipated, that the power which we possess and exercise of raising the rate of discount, keeps the demand upon us within manageable dimensions. There are other restrictions which are important. The rate we charge for our discounts, we find, in general, a sufficient check."

This, in a sentence, amounts to an admission that it is the practice and duty of the Bank of England to discount or advance upon bills of all short date and a certain class to any extent, at some rate of charge or other. Nor is this a mere theoretical idea. The practice of Lombard-street is based on its reality. The bill brokers of Lombard-street, as Mr. Chapman, who is the most important of them, has explained, do not keep any reserve; they employ the whole of the money they receive; indeed, at the high rate they give for money, they would be ruined if they kept considerable amounts unemployed and yielding nothing. In a time of pressure they look to re-discounting at the Bank of England; in a few days, it is said, they can right themselves by doing little business and receiving payments of the bills which run off. But for those few days it seems essential to this mode of transacting business that the unlimited lending function of the Bank of England should be exercised, or that these great houses, who keep it is to be remembered, the reserves to a considerable extent of country bankers and other bankers, would stop payment. For the two days preceding the issue of the Government letter, I cannot doubt that many an anxious mind hardly thought of anything but the question whether the Bank would be disposed and be able to exercise this power. I am sure the events of the past month will have convinced most people that if our present mode of conducting business is to be retained, it is quite certain that in times of monetary pressure the Bank of England will be called on, and in fact will be almost morally compelled, to give very large amounts of temporary accommodation. The conviction of the common practical man is, that if the Bank of England refuse to advance on first-class mercantile paper at a short date, the "game is up," and "that is the end of all things."

Of course if the Bank of England undertake this business, and if they lead others to expect that they will carry it on, they must provide the means. It is idle for them to attempt to lend large sums of money without having a basis of bullion, or what is the same thing, a reserve of notes represented on the opposite side of the same building by bullion. They have no magic power of creating wealth; their position, like that of other people, is unsafe, when their reserve does not bear a due proportion to their liabilities. The importance of a great reserve is enhanced by the fact that the drain of bullion for foreign purposes, and the demand for unusual accommodation by the mercantile community and Lombard-street, often come, as now, contemporaneously, or in the closest possible succession. Just when the Bank's reserve is reduced to its lowest point by foreign payments, it is frequently called on for unusual advances. A certain discredit has arisen which makes other people disinclined to lend; and the Bank is called on to make advances. As I have said, the whole system of lending credit, as at any rate, on a portion of it that we may almost neglect the rest, depends on its being able to call into play, at some rate of interest or other, this reserve of lending power when applied to it. It must therefore keep, in ordinary times, a reserve so large as to render it possible, after or during a reduction of bullion by an unusual foreign drain, to make extraordinary advances to those who have been led to depend on those advances.

I do not see any way of explaining the phenomena of the present times without allowing that the Bank Directors have not acted upon this principle to a sufficient extent. We are so fortunate as to have a recent exposition of what their maxim of management is. They consider that when the accounts are made up in the form prescribed by Sir R. Peel, a reserve in the banking department, varying from 10 to 15 per cent. of the liabilities of that department, is "sufficient for every purpose of real security as well as of public confidence." "We think," says Mr. Woguelin, "that we ought to reserve a minimum of 10 per cent. of deposits. Our reserve fluctuates between one-fourth and one-third in times of scarcity of money, and it goes up to one-half and higher than that in times of abundance." In other words, when the Bank of England gets a reserve of notes above one-third of its liabilities, it is anxious to part with these notes and the bullion they represent, and it is satisfied if it has one-fourth of its liabilities in "bullion notes." What, then, has been the course of this reserve under this system of management during the past few weeks? It has been this:—

	Reserve.	Deposits.
September 19	£1,047,000	£1,047,000
October 3	6,014,000	17,554,000
October 10	4,008,000	15,245,000
October 17	4,024,000	15,189,000
October 24	4,217,000	15,285,000
October 31	3,488,000	15,138,000
November 7	3,288,375	16,649,000
November 14	2,185,000	16,781,000
November 21	957,000	17,449,000

Starting on the 19th of September with a reserve of more than one-third of the deposits, the Bank Reserve was reduced on the 11th of November to less than one-eighth, and even supposing the £2,000,000 said to have been withdrawn, for Scotland and Ireland, not to have been so withdrawn, that reserve would have been under one-fifth. I do not see how to resist the conclusion from these figures, that we ought to keep at a higher amount in ordinary times a reserve which may be diminished with such startling rapidity.

It is to be remembered that there is nothing very peculiar in the circumstances of the present occasion. We have had great losses in the American trade, in consequence of a failure in the expected remittances from our customers, but surely we ought not to have a crisis, or be in anxious difficulty, every time that we do not obtain immediate payment for our goods from a single nation. It is true that our own legislation has caused new difficulties. The Scotch Act of Sir Robert Peel, by requiring gold to go down to Scotland as a "basis" for the circulation, and yet so managing that it shall give no security to that circulation, seems invented to occasion a difficulty. The apprehension created by the limit on the Bank circulation defined by the English Act, was in 1847 a most material aggravation to the panic of Lombard-street. Still, on the other hand, there are favourable circumstances which have diminished the demand on the Bank much below what, without them, it must have been. The New York banks might not have suspended

specie payments; the East India Company might have required to send a much larger sum to the East than they have required. The first would have caused an extreme competition between the two sides of the Atlantic for bullion; and, probably, as the second was caused by political considerations, and was a State demand for actual silver, no banking operation could have checked its effects. Unless, therefore, we are prepared to suffer something like what we have suffered, and are suffering not very unfrequently, we should keep a larger amount of treasure in the country to pay our debts and meet sudden demands than we have been in the habit of doing."

I have preferred to argue this question in reference to the form of account prescribed by Sir Robert Peel—first, because such is the existing law, and next, because it gives the easiest reference to the maxims of the present managers which have a natural reference to law. But if any one will compare the accounts for the corresponding dates made up in the old form, he will find that there is a very important reduction of the reserve of bullion and a large temporary increase in the amount of liabilities.

I am anxious to say, in making that observation, that I would not be understood to impute any peculiar blame to the bank directors. The evidence recently given by some of them is infinitely superior to any which has ever before been given by members of that body, and gives a very pleasing impression of the anxiety and diligence which English merchants, without neglecting their own business, bring to the serious and important public duty. If they have been misled, their error has been one almost universally spread through the banking and mercantile community.

I would also add, that if we were starting de novo, I think most men would hesitate to establish an ultimate treasury for the nation, and would be still more reluctant to bind that treasury by usage and practice to advance indefinitely in times of difficulty. I own I should prefer myself that each banker kept his own bullion reserve, and that there was no ultimate unlimited lender to whom Lombard-street was in the habit of looking. But both these facts have existed so long, and are so engrained into our commercial system, that I do not see how to alter them, and scarcely anticipate that they will be altered; and my object in writing to you now, is to maintain that if the existing practice on these points is to be maintained, the Bank of England must keep a much larger reserve in its coffers than it has lately done."

SCOTCH BANKING.

(From the Saturday Review, 5th December.)

A FAMOUS teetotal orator used to tell the following story:—While walking the streets of a town where a great temperance gathering was about to take place, he found a man rolling in the gutter, helplessly drunk. The teetotaler, in the most creditable and audacious manner, stepped forward, and, in answer to all inquiries and rebukes, that he was himself one of the pillars of the cause of teetotalism. He and his brother he said, were on a temperance tour together. The brother went about from city to city, enforcing from the platform the duty of total abstinence, while he himself accompanied him on his crusade as "a frillie shampie 'osh' debashin' effects of intemperance."

The Western Bank of Scotland unites in itself the tactics of the two brothers. No one will deny that it exhibits a most edifying spectacle of the consequences of reckless mismanagement. At the same time, with most creditable zeal and industry, it calls meetings, gets up deputations, and kindly favours us ignorant Southerners with the benefit of its experience and its wisdom on currency questions. It is a great help to a preacher to have some striking illustration of the evils of the vice which he condemns; but it is difficult to listen with patience to the teaching of a lecturer who points his moral with his own offences. Under the circumstances, we may perhaps be excused for doubting the soundness of the doctrines which have been so abundantly poured forth of late by the Glasgow supporters of the "unfortunates" bank. We are disappointed, too, at not hearing from such well-informed authorities a few more details of the business which has ended so deplorably. Every speaker flies off, when he seems on the point of descending on the region of fact. The most interesting point is the solvency of the proprietors of the bank; but all we can learn about this, is that they are so immensely rich that it would be a mere waste of time to prove what everybody knows—that they could easily pay off every liability, and still have a surplus of millions. This may be true, and for the sake of the creditors we hope it is true; but it is puzzling to be told, almost in the same breath, that the only way in which these wealthy shareholders can get through their troubles is by keeping their depositors out of their money for about two years. Surely it ought not to take so long as that to enable men of almost fabulous resources to realize enough to meet their engagements. However, it is the depositors' business to decide whether they will accept the terms that are offered them; and if they decide in the affirmative, we must be content with our present information as to the means by which the insolvency has been brought about. If the noble and commercial patrons of the Bank succeed in setting that estimable body on its legs again, the public will certainly lose a useful and instructive revelation. To the uninitiated there has long been a mystery about Scotch banking, which, for many reasons, it would be desirable to dispel—and if the past management of the Western Bank were subjected to an investigation as searching as that which has dragged to light the innermost secrets of the Royal British, we should learn—if not what Scotch principles of banking are in their integrity—at least what they are capable of becoming when developed by scientific hands.

It is rather remarkable that the Royal British itself was started for the professed purpose of introducing the Scotch system into London. The announcement, indeed, was not much more true than most others which emanated from the same source; for, with the exception of the cash-credit practice, which had not previously found favour in England, the most important peculiarities of the Scotch system had long been before adopted, and even exaggerated, by our own Joint-Stock Banks. But, for some reason or other, it was considered a serviceable puff for a Bank to proclaim its adherence to the Scotch practice. There was a floating idea that Scotch banks could do anything. They were supposed to be at the most the most stable and the most liberal in the world. They could lend to men without capital, and pay interest on all deposits, from a £10 note upwards. At the same time, they were able to find good dividends for their fortunate shareholders. They could maintain a circulation, the bulk of which consisted of £1 notes, without the slightest fear of a run—risk which many, perhaps over-cautious, authorities have declared to be too great for the Bank of England itself. They led a sort of

charmed life, and seemed as if they could combine the practice of what in England, some years ago, would have been thought "fast banking," with all the security enjoyed by the steadiest of our firms. How it happened that what was hazardous in London should be quite safe in Glasgow, was ever very clearly apprehended; but the result was supposed to be well established, and Scotch banking became a great fact, to be revered accordingly.

There was a reason for this as for most other superstitions. For more than a century the Scotch banks had maintained a high reputation. Notwithstanding their liberal treatment of the public, and in spite of the dangerous though profitable power of unlimited issue which until lately they possessed, they had stood wonderfully firm. Failures had been rare even in the worst times, and disastrous failures were formerly almost unknown. It was not surprising that a career of such long-continued prosperity should be attributed to the system, and that attempts at imitation should be made by analogous institutions on our side of the border. The main elements of the success of the Scotch banks were, however, independent of their special principles. Their shares were scattered widely throughout all classes, and they found everywhere zealous, because interested, supporters of their credit. At this moment, the extent of such influences is strikingly shown by the desperate efforts which are made to resuscitate the Western Bank. Another circumstance which led to the long stability of the Scotch banks was derived from the national character. If the general scheme was not exactly a cautious one, it was for a long time sagaciously worked. Besides, though the payment of interest on deposits had a tendency to eat up profits, it kept the banks in good odour, and added to what used to be their great source of emolument—the issue of notes. Still the system was one which always needed a vast amount of personal caution in its working. A sailor who will carry on in all weathers ought to be a skilful pilot, and a bank that is conducted on ultra bold principles is certain to go to ruin in the hands of any but the most prudent and watchful managers. In the Western Bank, prudence and vigilance were eclipsed by the more showy qualities, and it has fallen.

But, apart from the follies of a particular management, it is worth considering whether the system itself does not contain elements of unsoundness. Before we sit at the feet of the currency doctors of Glasgow, it may be well to see how far their own practice entitles them to assume the office of teachers. The broad distinction between the system of the Scotch banks and the old-fashioned notions of sound banking which were entertained in England, is this: The English banker took delight in his customers without interest, and made his profits by investing the money in his hands in safe and short securities. This is still the business of every well-conducted private bank. In Scotland, on the other hand, interest is paid on all deposits; and the only profit made except that derived from the limited issue of notes, is obtained by lending out the money at a higher rate than that at which it is borrowed.

Almost all our own joint-stock banks are, in this respect, carried on upon the Scotch system. They, in common with the discount houses, borrow money to enormous amounts at a rate which leaves only a margin of £1 per cent. for profit on safe investments. Now that the prestige of Scotland has become, by recent events, less overwhelming than it used to be, we may perhaps venture to ask whether this easy way of doing a large business is altogether sound. So long as the banker does not himself pay interest, he can, without trenching too much on his profits, keep up such a reserve as he deems sufficient to secure him against a general panic, or a run on his own establishment. One man may think a quarter of his liabilities not more than a fifth. Still, whatever the proportion may be, there is nothing in the nature of his business to compel him to work with scarcely any reserve at all, in order to be in a position to realize any profits. But take the case of a Scotchified Joint-Stock Bank. Even in ordinary times, it borrows at five per cent. and lends at five. So far as its deposit business is concerned, it can only maintain a reserve of one-fifth of its liabilities by sacrificing the whole of its profits, and even drawing upon its other resources to recover any loss from bad debts. Of course, business could not go on on such terms—so the reserve is pinched, and the whole or nearly the whole of the borrowed money is employed in the market. When the rate of interest becomes higher, the difficulty of keeping a reserve increases, so long, at least, as the difference between the borrowing and lending rates is kept at the customary standard of £1 per cent. The truth is, no reserve, or none worth mentioning, is ordinarily kept against the deposit accounts which form the bulk of the business of the Joint-Stock Banks. If, in such a state of things, a sudden run were got up, there would be no alternative but to suspend, or to get assistance. The money deposited in, for the most part, held on short notice, and it may all be demanded—and, in case of a run, would all be demanded—before the bills on which it had been advanced would arrive at maturity. But even without supposing a run to take place, the mischief produced by the system is very serious. When a panic seems to be threatened, the Banks are compelled to abandon or curtail their usual advances in order to form the reserve which they should never have been without. An enormously increased demand for accommodation is thus thrown upon the Bank of England, and the tendency to alarm is aggravated by the returns of private securities, which have been unduly swelled by the sudden contraction of the Joint-Stock Banks. In order, moreover, to keep themselves safe, the banks are obliged to go on raising money at eight or nine per cent., at a time when they dare not use it, and are, in fact, borrowing their reserve at two or three per cent. more than the bulk of their money brings in to themselves.

It is difficult to believe that a style of business which involves such consequences can be sound. The London Joint-Stock Banks, it is true, have all weathered the crisis without discredit, and, except in respect to their half-year's profit and loss account, they are probably in as strong a position as at any time since their establishment. But the system on which they work is substantially the same in principle as that of the discount houses which have not passed so triumphantly through the ordeal. We doubt much whether the managers of our Joint-Stock Banks would venture to continue their practice of taking deposits at a rate of interest which affords no sufficient margin for safe profits, did they not rely on the possible suspension of the Bank Act to relieve them in the last resort. To destroy this reliance by legislation, still more stringent than the Act of 1844, would perhaps be the most effective means for reducing within prudent limits the expansive energies of the Scotch system of banking.

THE BANK OF ENGLAND'S BANKING.

(From the Spectator, 28th November.)

We suspect that the more closely the conduct of the Bank of England during the monetary difficulties preceding the late practical suspension of the Act of 1844 is examined, the more questionable it will appear; and that one of the main points really at issue will be the continuance of the Bank's privileges as a manager of the circulation. It is quite proper that the public should be thoroughly possessed with the difference between a national bank of issue, which the Directors are in one of their capacities, and a mere bank of deposit and discount like any other great joint-stock bank, which is another business of the Directors. Equally right is it that the principles of currency and the practical causes of the late financial derangement should be investigated, and that Parliament should inquire as to the conspiracy (intimated last week by the *Times*) to compel the Government to suspend the Act of 1844, in order to bolster up the credit of mercantile gamblers, whose moined confederates uphold them, expecting that in the last resort the Bank of England will influence the Government to break in upon the principle of the Act.

These topics, we say, cannot be too well ventilated. It will be mischievous if the exposition of economical principles, or the examination of particular forms of money management, should succeed in diverting public attention from the examination of the conduct of the Bank of England as a bank of deposit and discount, but a bank endowed by the state with peculiar privileges and very profitable advantages. For it seems probable that the Bank, whether unconsciously or consciously, has abused the powers granted to it for public purposes, and has repeated, though in a more subtle form, and possibly in a less degree, the course which aggravated the panics of 1825, 1837, and 1847.

On the present occasion, at least up to the 12th of November, no charge could be brought against the Bank that in pursuit of shareholder profits it risked the convertibility of the note and then "put on the screw" to save itself from being unable to pay in gold. The Act of 1844, by separating its functions as a bank of deposit from a bank of issue, prevented that danger. Neither is the Bank obnoxious to the charge brought against it in 1847, of having stimulated speculation by maintaining a low rate of discount in the face of a drain of gold. From the commencement of the Russian war to the present time, the conduct of the Bank as regards the rate of discount has been prudent. Its error lies in the conduct of its own banking business—in having used its customers' deposits to discount bills at a high rate of interest for its own profit, in utter disregard of its means of paying the checks of its depositors from the money in its possession, except by frightening the Ministry into suspending the Act, and enabling the Bank to issue paper under the nation's guarantee without a corresponding amount of bullion.

This is a charge which requires to be supported by facts. Before adducing those facts, the reader must distinctly bear in mind, that in the issue of bank notes under the Act of 1844 the Bank of England has no more power or discretion than he has. It was assumed by Sir Robert Peel that fourteen millions was an amount below which the paper circulation would never fall. The value of notes to that amount rests on a vacuum, secured, or supposed to be secured, by that amount of public securities. For every note issued beyond fourteen millions, an equivalent must be deposited in the form of bullion or sovereigns. The suspension of the Act simply means that the Bank may disregard this provision, and issue notes ad libitum, without any other base than its own prestige and credit.

But while it is a mere machine in the "Issue Department" till the Act is suspended, it is absolute in the common banking department—that is, as absolute as any other joint-stock or private bank. If the Directors will not restrain themselves by the established laws of banking, there are no means of restraining them. We believe that they have not complied with the established laws of banking; that they have gone on increasing their amounts of discounts without any apparent care as to their means of honouring the checks of their depositors, to an extent which no other solvent bank would have dared to venture upon, but which the Bank of England risked with the knowledge that Government would never let them stop as bankers. Their intentions may have been as good as those which are said to have been a certain place; they may never have thought of the profit to be derived from seven, eight, ten per cent. rates; but they have contributed as much to the mischief as if they had intended to do so. In their law, not only to the suspension of the Act, but to the encouragement of the unexpressed conviction that Government will never let the Bank stop, which animates the money-dealers who supply the speculators, whose conduct has chiefly rendered the suspension a necessity.

The main facts that prove the mismanagement of the Bank lie in a nutshell. The day before the issue of the letter of suspension, the banking liabilities to the Government and individuals, and the means of meeting those liabilities in available assets—that is, money—stood as under.

Liabilities in the week ending 26th 11th November, 1847.	
Public deposits	£5,314,659
Other deposits	12,935,344
Seven-day and other bills	873,075
Total liabilities to the customers of the bank	£19,123,078
Available means of meeting those liabilities	
Notes	£987,710
Gold and silver coin	504,443
Total available assets	1,492,153

Liabilities beyond available means the night before the Suspension were £17,640,925. In other words, the withdrawal of less than a million and a half of money from the banking department would have compelled the Bank to stop, and to stop—having involved a panic and wholesale destruction, compared with which 1825 would have been as nothing.

Nor can it be said that this reduction of assets, though a theoretical possibility, was in practice impossible; or that the Bank was driven into a sudden error through the news of the American crisis. The subjoined table* will show, that on three separate occasions, the Bank in twice as many weeks suffered three successive reductions of its available assets to meet the demands of its banking customers, to nearly the same amount as the money (£1,462,153) remaining in its coffers the night before the suspension. It

* Table showing the amount of Assets in the Banking Department of the Bank of England available to meet the demands of the Customers from the week ending 26th September to the week ending 11th November, 1847, as well as the weekly Decrease of those Assets.

Week ending	Notes.	Gold and silver.	Total Assets.	Weekly Decrease.
September 26	£5,014,150	£594,208	£5,608,358	
October 3	4,008,000	584,277	4,592,277	1,016,081
October 10	4,024,000	570,433	4,594,433	1,018,533
October 17	3,217,185	599,048	3,816,233	807,804
October 24	3,448,840	592,080	4,040,920	776,000
November 1	3,185,315	180,720	3,366,035	1,674,885
November 11	957,710	504,443	1,462,153	1,903,882

will be seen, that in the week ending the 3rd October the available assets were diminished by more than £1,400,000—being a reduction of nearly the same amount as the Bank had in its possession when it "received the assistance" of Government. The week before the suspension took place, the decrease was £1,372,485—within £29,000 of the sum they finally closed with. In the very week of the suspending letter, their available assets were reduced by £1,243,882—leaving them with only £1,462,153. Another week of a similar reduction would have brought the Bank within £120,000 of stoppage, even if we suppose that no distrust had been caused by the publication of such an account. And all these reductions took place notwithstanding it had sold stock to increase its means.

The same table shows that this was not an "accidental" proceeding, but a course regularly persisted in. During the seven weeks commencing the 19th September and ending the 11th November, this reduction of the company's available means extended to nearly five millions and a quarter, spite of additions made by the sale of securities. This drain of course varied week by week, but with one exception it was continuous. The money thus reduced was applied to increasing the discounts, which rose between the 26th September and the 11th November from £19,719,700 to £26,113,453; being an increase in round numbers of £6,400,000.

These proceedings of the Bank are not exceptional. The same risk of stoppage as bankers was run in 1847, though not so great a degree. Two days before the then letter of suspension was issued, the liabilities and means of the Bank stood thus:—

Liabilities in the week ending the 23rd October, 1847.	
Public deposits	£4,766,394
Other deposits	8,589,599
Seven-day and other bills	947,913
Total liabilities to the customers of the Bank	£14,303,916
Available means of meeting these Liabilities—	
Notes	1,547,270
Gold and silver coin	447,246
	1,994,516

Liabilities beyond available means in October, 1847, £12,299,400.

There are people who think the Bank could escape stoppage at the very last moment by an unscrupulous use of its powers and resources. Lord Overstone inclines to this opinion. He did not speak positively before the Committee of the House of Commons, but he conceived that the Bank, by the sale of securities, by discounting all discounts, and by letting the bills already discounted "run to maturity," might save itself. The authority of Lord Overstone is perhaps the highest that exists on currency, more especially as regards any act of practical banking; but we cannot help doubting the soundness of this notion. If the Bank were to deluge the Stock Exchange with public securities, to suspend instantly all discounts, and ruthlessly enforce payment, everybody knowing its position, a panic might arise among depositors, which all the money to be raised by these methods could not meet; or if it did, the panic and confusion would be almost as ruinous as stoppage itself.

The first conclusion from all this is, that Peel's Act has secured (up to this time) the convertibility of the note, which, considering the financial strain of the last four years, and the deviation of the Bank on the only point where it could deviate, might without the Act have been in jeopardy. The second conclusion is, that the proceedings of the Bank, and their reasons for them, should be very searching examined during the inquiry which it is assumed will take place in regard to the suspension of the Act. If found culpable, a further inquiry should be entered into as to the propriety of removing the management of the issues from the Bank of England, and leaving it to stand before the world like any other joint-stock bank, with perhaps some curtailment of its power and privileges in other directions. Theoretically, this should have been done in 1844 to render the measure complete, but practical and inherent difficulties intervened. The real difference between a bank of national issue and a simple bank of deposit and discount were not popularly understood; many of those who understood them after a fashion had prejudices as to the locus-pocus power of the Bank on money and the money-market, which the people at large partook of in a superstitious degree. These notions are to a great extent dissipated; the main inherent difficulty remains—the difficulty of finding a substitute. A Government department—Board—Commission, or what name you will—seems the only resource; but there is the obvious objection that the Board would be influenced by the Government, as Government in its turn would be influenced by "pressure from without." If, however, the Bank is subject to influences of an equally potent but of a less patent and therefore a more mischievous kind, pursues a line of conduct that compels the Government to tamper with currency law, there does not seem much difference between them. A Government Board would have its advantage, that the responsibility would be distinctly limited and fixed. At present it is divided so that nobody is responsible. However, all we now say is—inquire.

To the Editor of the Sydney Morning Herald.
SIR,—In your issue of Wednesday is a copy of the correspondence between the Insurance Company and the Corporation, relative to the supply of water at first, where it is stated that instructions have been given, and arrangements entered into, which it is hoped will prevent the like inconvenience in future. I can testify to the efficiency of the arrangements.

Now, until the Nepean River flows as hopelessly throughout the streets and dwellings, and high over the Signal-hill from its own gravitation, instead of the expensively pumped up drainage of the city, the citizens may join with the City Council in hoping for an improved supply; but I write more especially to call attention to a statement that plans are in course of preparation for the erection of a large and bell tower. Possibly very ornamental—an architectural gem—but hardly consistent with depressed corporate finances, and worse than useless for the intended purpose.

There is no fire-bell in London; in many cities and provincial towns in England the ringing of it has been required, but not easily to be obtained after the arrival of fire-engines; but I have known them greatly delayed, in being set to work, from the pressure of the crowd, who, unless restrained by the police, or kept back by ropes, or barriers formed by removed goods or furniture, not only get into danger themselves, but prevent those who have duties to perform escaping from falling walls or burning timber.

I believe with organised management, the police would readily summon the brigade, or turncoats; and, if instructed in setting an engine to work, or if they had one on a light construction, under their control, the multitude would be appreciated; besides they are good disciplinarians, but the loss sustained in damaged goods and broken furniture, needlessly removed by the officious interference of an excited mob, frequently forms an inconsiderable amount of the loss attributed to the fire. I can testify to the efficient services of a troop of soldiers, but the troop summoned by a fire-bell would be the greatest obstacle that could be interposed in preventing the extinction of fire in the city of Sydney.

I therefore entreat the Council to hesitate, or obtain further evidence of its necessity, before assenting to the erection of the building as contemplated.

I am, Sir, yours most truly,
HYDRAULIC ENGINEER.

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